

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT FILING OF )  
THE MASSAC WATER ASSOCIATION, INC. ) CASE NO. 8181-1

O R D E R

On June 11, 1984, Massac Water Association, Inc., ("Massac") filed its application with the Commission requesting authority to adjust its rates in accordance with its purchased water adjustment clause. Massac proposed to recover the increase in purchased water expense from its wholesale supplier, Paducah Water Works ("Paducah"), which became effective January 1, 1984. The Commission has accepted this proposal subject to the absorption test described herein.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine a utility's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

### TEST PERIOD

Massac filed a detailed statement of water purchased under the base rates for a 12-month period ended within 90 days of the filing date in order to satisfy 807 KAR 5:067, Section 1.1(b). However, according to 807 KAR 5:067, Section 2(1), the change in purchased water cost is to be computed using a period of 12 calendar months ending within 90 days preceding the month of the effective date of the supplier's rate change. Furthermore, water loss during the 12-month period of April, 1983, through March, 1984, was extraordinary, measuring 13.7 percent. According to annual reports on file with the Commission, average water loss from 1980 through 1983 was 3.28 percent. Therefore, the Commission has adopted the 12-month period ending December 31, 1983, as the test period in this matter, a period which is representative of normal operations.

### REVENUES AND EXPENSES

Massac did not propose any adjustments, as such, to its test year statement of operations. However, Massac did include a calculation of the increase in purchased water costs resulting from the increased wholesale rate charged by Paducah. The Commission, after careful examination of Massac's financial condition, has made the following adjustments to Massac's test-year operating statement in accordance with its established rate-making policies:

#### Purchased Water Expense

Massac reported purchased water expense of \$18,794 for the test year. Massac's normalized purchased water expense, including

the increase from Paducah effective January 1, 1984, is \$24,620.<sup>1</sup> Accordingly, the Commission has increased Massac's test-year operating expenses by \$5,826 to reflect the increased purchased water expense.

Depreciation Expense

Massac's test-year depreciation expense was \$19,052. This reflects depreciation on total plant in service with a resulting composite depreciation rate of approximately 2.15 percent. It is the policy of the Commission to compute depreciation expense for rate-making purposes on non-contributed plant only. Such a policy insures that ratepayers pay only for the plant in which the utility has made an investment and not the plant which the utility has acquired through contributions.

Massac's balance sheet at the end of the test period reflects contributions in aid of construction of \$390,962 which represents approximately 44.11 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense, the Commission has utilized Massac's composite depreciation rate and excluded contributed property. This results in the exclusion of approximately 44.11 percent of the test-year depreciation expense. The adjusted depreciation expense for rate-making purposes is \$10,648, which reflects a reduction of \$8,404.

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<sup>1</sup> 23,673,300 gallons X \$1.04 per 1,000 gallons = \$24,620

Adjustments to the test period operations produced the following results:

	<u>Actual</u>	<u>Commission Adjustment</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 95,227	\$ -0-	\$ 95,227
Operating Expenses	70,404	<2,578>	67,826
Operating Income	<u>\$ 24,823</u>	<u>\$ 2,578</u>	<u>\$ 27,401</u>
Other Income	4,377	-0-	4,377
Other Deductions	23,345	-0-	23,345
	<u>\$ 5,855</u>	<u>\$ 2,578</u>	<u>\$ 8,433</u>

#### REVENUE REQUIREMENTS

Massac's average annual debt service for the next 5 years is \$30,288. The Commission is of the opinion that a debt-service coverage of 1.2X is a fair, just and reasonable coverage for Massac to maintain in that it meets the requirements of its lenders and provides an adequate surplus for equity growth. Based on adjusted test period operations, the Commission finds that Massac should increase its rates to produce additional annual revenues as follows:

Adjusted Operating Expenses	\$ 67,826
1.2X Debt-Service Coverage	<u>36,346</u>
Revenue Requirement	\$104,172
Less:	
Adjusted Operating Revenue	\$ 95,227
Adjusted Other Income	<u>4,377</u>
Increase Required	<u>\$ 4,568</u>

Thus, the Commission is of the opinion that Massac can and should absorb \$1,350 of the increase in its purchased water cost.

### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. Massac has the potential to absorb \$1,350 of the total purchased water cost increase of \$5,918.<sup>2</sup>

2. The rates as proposed by Massac are unfair, unjust and unreasonable and should be denied upon application of KRS 278.030.

3. A purchased water adjustment in the amount of 20 cents per 1,000 gallons and the rates in Appendix A will provide the additional revenues granted herein and are fair, just and reasonable, and therefore should be approved.

4. The base rate for future application of the purchased water adjustment clause of Massac should be:

<u>Supplier</u>	<u>Rate</u>
Paducah Water Works	\$1.04 per 1,000 gallons

IT IS THEREFORE ORDERED that the rates proposed by Massac be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates to be charged for water service rendered on and after the date of this Order and are hereby approved.

IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of Massac the base rate for purchased water shall be:

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<sup>2</sup> 23,673,300 gallons X 25 cents per 1,000 gallons = \$5,918.

Supplier

Rate

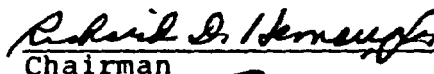
Paducah Water Works

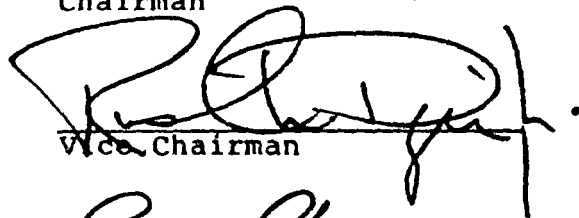
\$1.04 per 1,000 gallons

IT IS FURTHER ORDERED that Massac shall file with the Commission within 30 days of the date of this Order its revised tariff sheets setting out the purchased water adjustment clause and the rates approved herein.

Done at Frankfort, Kentucky, this 8th day of November, 1984.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8181-1 DATED November 8, 1984.

The following rates are prescribed for customers of Massac Water Association, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-inch Meter

Usage Blocks

Monthly Rates

First	2,000 gallons	\$ 8.90 Minimum Bill
Next	8,000 gallons	4.00 per 1,000 gallons
Next	10,000 gallons	2.20 per 1,000 gallons
Over	20,000 gallons	1.80 per 1,000 gallons

3/4-inch Meter

Usage Blocks

Monthly Rates

First	3,000 gallons	\$12.90 Minimum
Next	7,000 gallons	4.00 per 1,000 gallons
Next	10,000 gallons	2.20 per 1,000 gallons
Over	20,000 gallons	1.80 per 1,000 gallons

1-inch Meter

Usage Blocks

Monthly Rates

First	5,000 gallons	\$20.90 Minimum
Next	5,000 gallons	4.00 per 1,000 gallons
Next	10,000 gallons	2.20 per 1,000 gallons
Over	20,000 gallons	1.80 per 1,000 gallons

1 1/2-inch Meter

Usage Blocks

Monthly Rates

First 20,000 gallons  
Over 20,000 gallons

\$62.90 Minimum  
1.80 per 1,000 gallons

2-inch Meter

Usage Blocks

Monthly Rates

First 50,000  
Over 50,000

\$116.90 Minimum  
1.80 per 1,000 gallons